

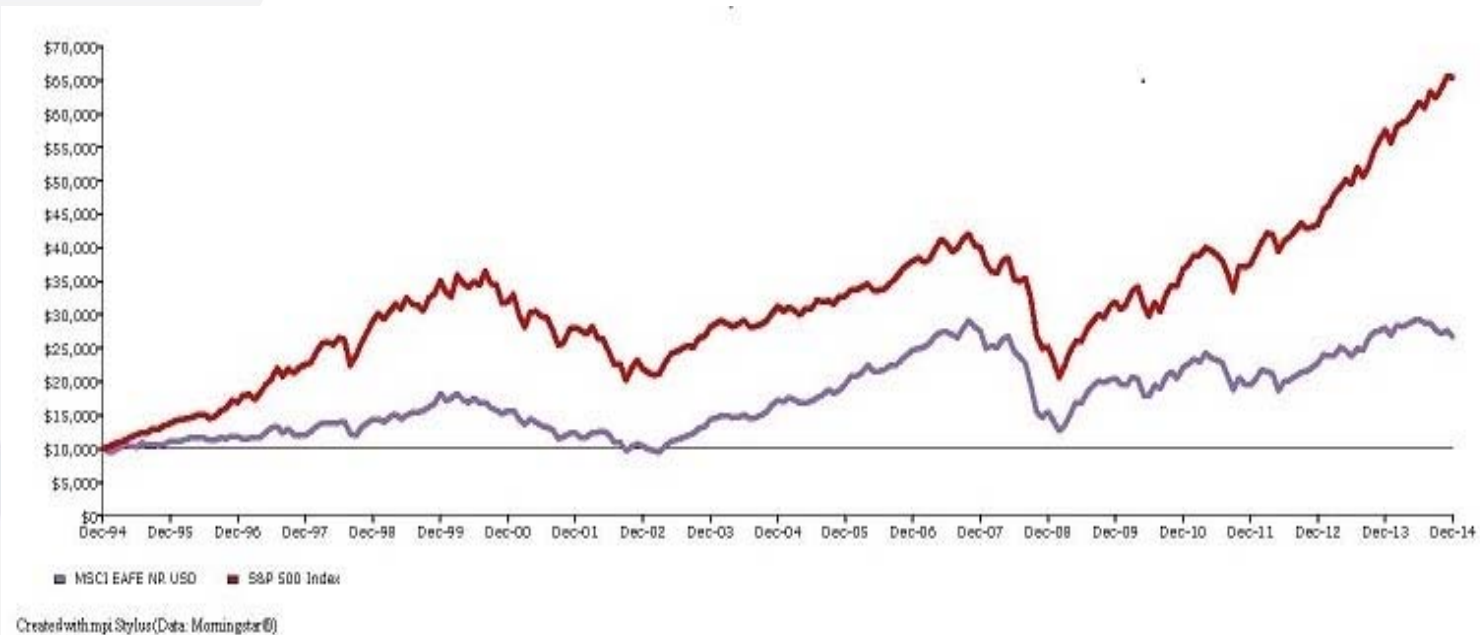


## **Managed Strategies for Workplace Retirement Portfolios**

VERITY

## Introduction to Retirement Portfolio Strategies

As investors, each of us wants to make all the money we reasonably can, but stretching too far or chasing yesterday's winners can too often end in tears. In today's markets, an adaptable process can be vital, for circumstances change, and an investment manager must always be thinking about the effect of those changes on portfolio strategy.



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## Retirement Portfolios

Effective management of both opportunity and risk in retirement plan accounts requires a unique perspective. As a consequence, the process of managing retirement accounts may be more effectively handled by a team with a depth of experience working specifically within the retirement plans environment. Verity Asset Management is an SEC-registered investment adviser widely recognized for its signature focus on the management of personal retirement plan assets, particularly in higher education.



Our primary objective in the management of retirement assets is to optimize the probability of sound, successful results for each investor. The focus on a high *probability* of results emphasizes the management of risk. Good performance is essential, but chasing performance without disciplined risk management can produce devastating declines in portfolio value.

By integrating risk management with carefully selected growth opportunities, we seek to provide greater continuity of returns along with a sense of comfort that the selected investment strategy is appropriately targeted for each investor.

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## Tactical Allocation

Asset Classes	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
U.S. Stock	39.39%	5.24%	78.51%	28.48%	8.69%	18.22%	32.39%	30.38%	2.52%	11.96%
Foreign Stock	16.23%	4.79%	31.78%	18.88%	7.84%	17.77%	22.78%	13.69%	1.38%	11.77%
Emerging Markets Stock	11.17%	-35.65%	28.61%	16.83%	5.64%	17.32%	2.47%	5.97%	-0.55%	11.19%
Investment Grade Bonds	9.48%	-37.00%	26.46%	15.06%	2.11%	16.00%	-2.02%	0.59%	-0.81%	8.60%
Global Bonds	6.97%	-37.97%	18.91%	7.75%	-12.14%	4.32%	-2.60%	-2.19%	-3.15%	2.65%
REITs	5.49%	-43.38%	6.93%	6.54%	-13.32%	4.21%	-2.60%	-4.90%	-14.92%	2.09%
Commodities	-16.82%	-53.33%	5.93%	5.54%	-18.42%	-1.06%	-9.52%	-17.01%	-26.36%	1.00%

Most approaches to personal investing begin with a focus on the manner in which assets are allocated. There are two basic styles of asset allocation:

- Strategic Asset Allocation - Traditional **strategic** asset allocation sets target percentages for various asset classes, such as domestic and foreign stocks and bonds - and periodically rebalances accounts to those targets. It could be called a diversified “buy and hold” approach to investing.
- Tactical Asset Allocation - Rather than allocating across traditional asset classes in a static manner, our approach to **tactical** asset allocation seeks to identify particular asset classes, market sectors, and regions of the world which offer more attractive underlying fundamentals and/or positive market trends at the present time. The goal is to adapt to changing conditions in an effort to discover more favorable opportunities for growth and to manage risk more actively than strategic allocation.

The potential value of applying a tactical approach can be suggested by the widely divergent returns of various segments of the investment universe. Not surprisingly, the leaders change over time, as illustrated by the adjacent chart.

### Asset class returns come from the following indices:

*U.S. Stock - S&P 500 Index – Composed of 500 large company U.S. stocks, often used as a proxy for the domestic stock market.*

*Foreign Stock - MSCI EAFE Index – Designed to represent the stocks of developed foreign countries in Europe, Australia, and the Far East.*

*Emerging Markets Stock - MSCI Emerging Markets Index – Designed to represent the stocks of developing countries worldwide.*

*Investment Grade Bonds - Barclays U.S. Aggregate Bond Index – Used to represent intermediate term U.S. investment-grade bonds.*

*Global Bonds - Barclays Global Aggregate Bond Index – Designed to provide a broad-based measure of the worldwide investment grade bond markets.*

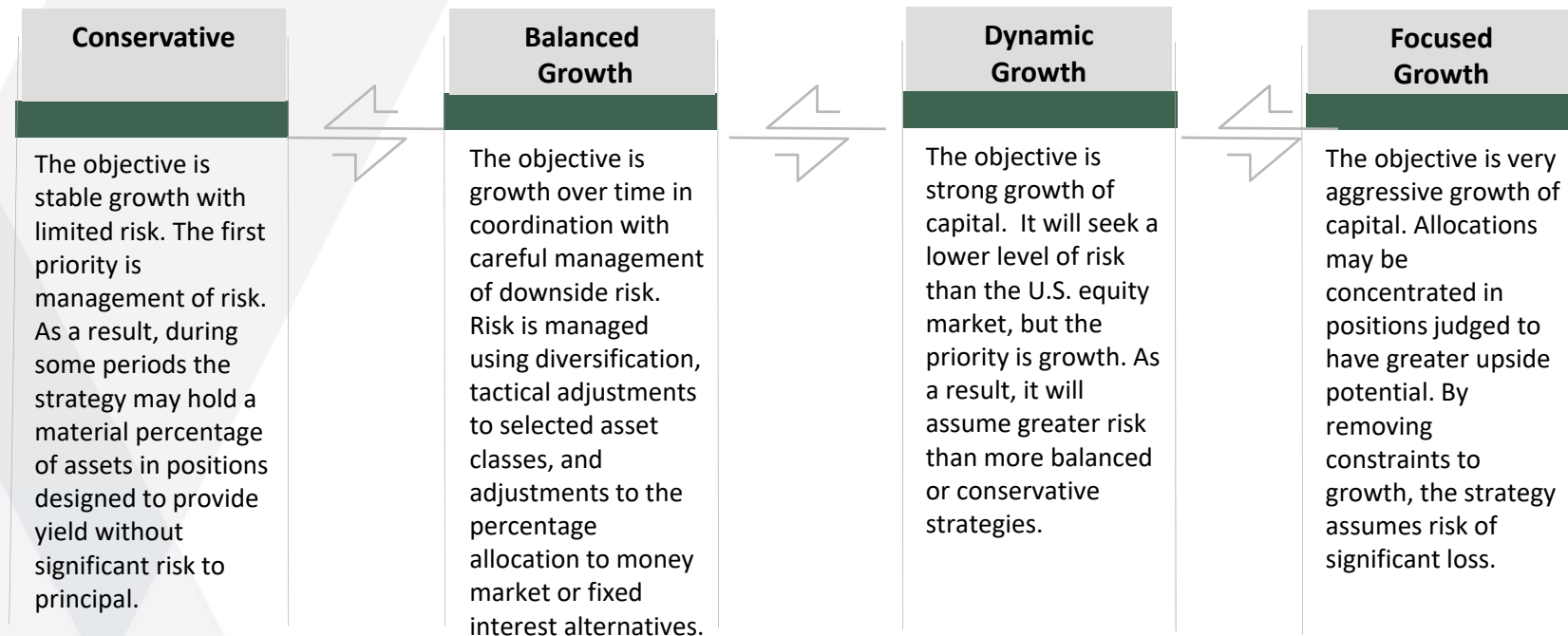
*REITs - Cohen & Steers Realty Majors Index – Designed to represent the market of selected U.S. Equity Real Estate Investment Trusts.*

*Commodities - Dow Jones-UBS Commodity Index – Aims to provide broadly diversified representation of commodity markets.*

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## A Choice of Strategies

*By design, our portfolios are not intended to track any index. We seek to go where the opportunities lie – to take what the market may be giving – using a disciplined process built on clear foundations.*



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## Principles and Practices – Seek Growth

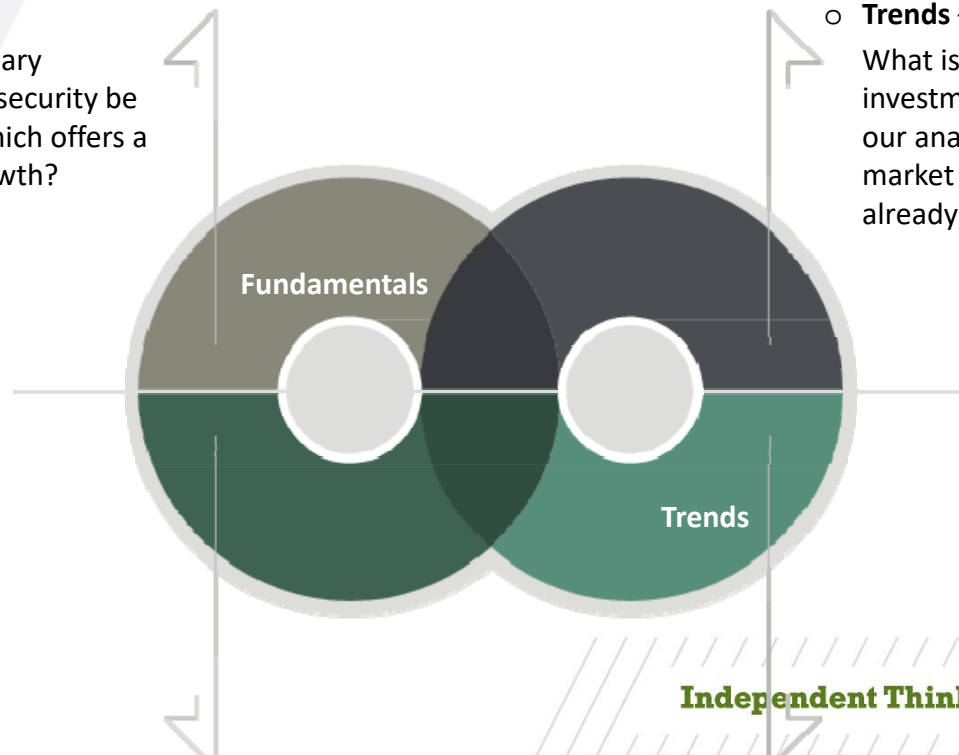
*Our investing principles and practices for retirement assets have evolved over time, shaped by insights gained from investing over many market cycles and conditions. In our selection process, we pay primary attention to two factors:*

- **Fundamentals –**

Price is always the primary consideration. Can the security be purchased at a price which offers a strong prospect for growth?

- **Trends –**

What is the market saying about this investment? We seek to invest where our analysis is complemented by a market trend that is developing or already well established.



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## Principles and Practices – Manage Risk

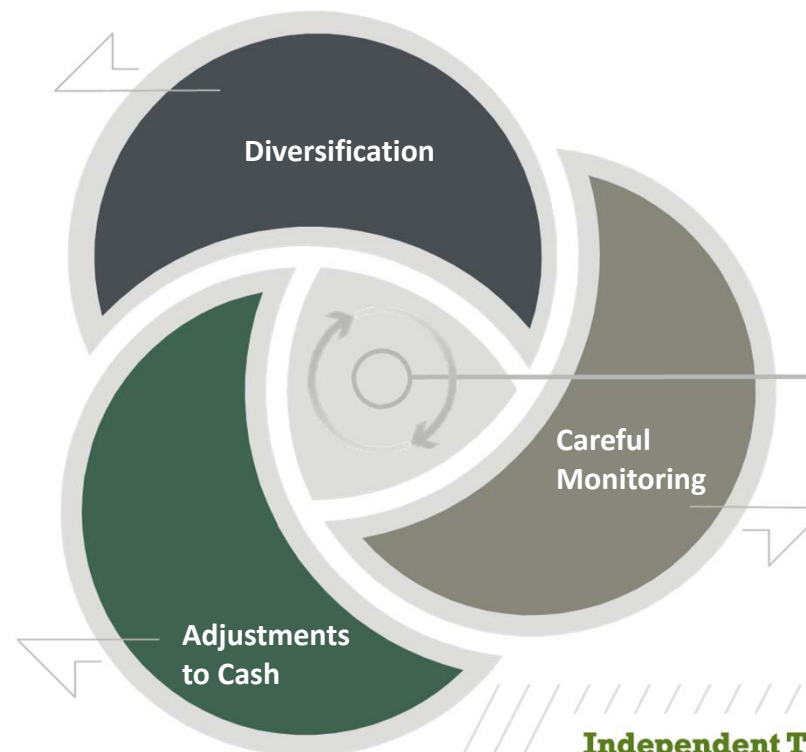
It is difficult to achieve your retirement goals if your investments repeatedly suffer major declines in value. The steps we take to manage risk include:

### **Diversifying Portfolios and Monitoring Correlations –**

The number of mutual fund options in retirement plans can be limited, but we seek strong diversification. To reduce portfolio volatility and overall risk, we monitor in an effort to assure that too many holdings do not closely correlate (by consistently moving in the same direction at the same time).

### **Adjustments to Cash –**

Allocations to cash or money market funds are adjusted up or down depending on market outlook.



### **Careful Monitoring of Markets and Investments–**

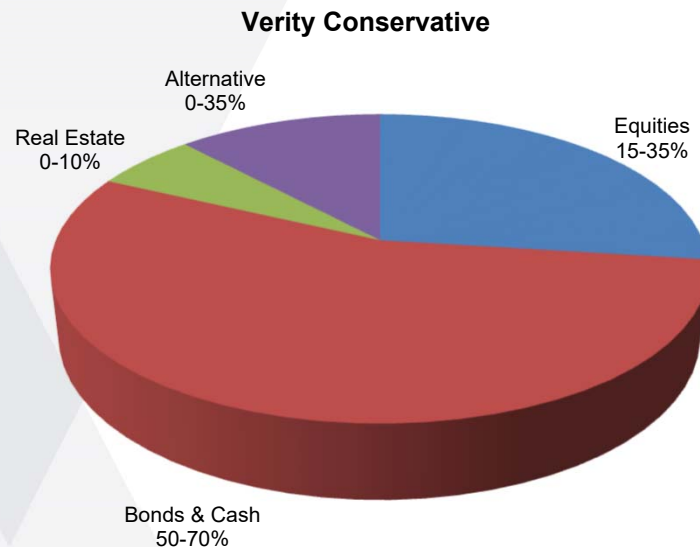
The 21<sup>st</sup> Century has brought a rapid acceleration in the speed at which information is disseminated. The impact upon financial markets has been dramatic, sometimes resulting in breathtaking movements. Our team watches the interaction of markets and investments throughout each day, analyzing these movements with the experience of decades of professional trading and investing.

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## Verity Conservative Strategy

### Portfolio Description

The objective of the Verity Conservative strategy is stable growth with limited risk. The first priority is management of risk. As a consequence, during some periods the strategy may hold a material percentage of assets in money market or fixed interest positions designed to provide yield without significant risk to principal.



### Portfolio Characteristics

- The strategy is constructed to err on the side of caution. It will hold a limited allocation to equities and will seek additional opportunities for growth across a very diversified portfolio in those plans which provide a wide range of fund options.
- The strategy will typically hold a significant allocation to bond funds. However, during periods when the risk/reward assessment for bond funds is unfavorable, larger allocations to money market or fixed interest options may be used in place of bond funds to protect portfolio value.
- Some plans may not offer funds in the Real Estate or Alternative categories. For those plans, portfolio construction will focus on favorable allocation among U.S. and foreign equity, bonds, and fixed interest alternatives.
- The percentage allocations illustrated are expected ranges. We seek to identify asset classes and sectors which provide favorable risk/reward profiles. We then build portfolios using those asset classes, seeking optimal return with limited risk. There are no specific constraints on target allocations.

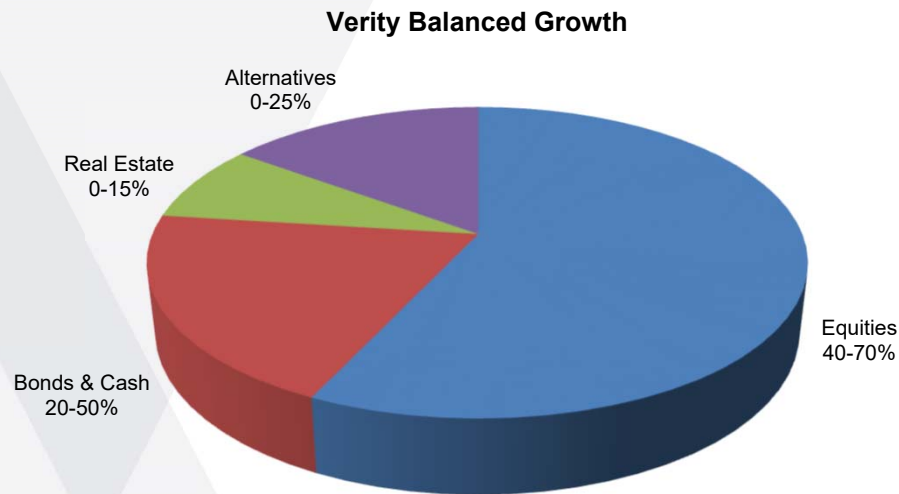
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## Verity Balanced Growth Strategy

### Portfolio Description

The objective of the Verity Balanced Growth strategy is growth over time in coordination with careful management of downside risk. Risk is managed using diversification, tactical adjustments to selected asset classes, and adjustments to the percentage allocation to money market or fixed interest options.



### Portfolio Characteristics

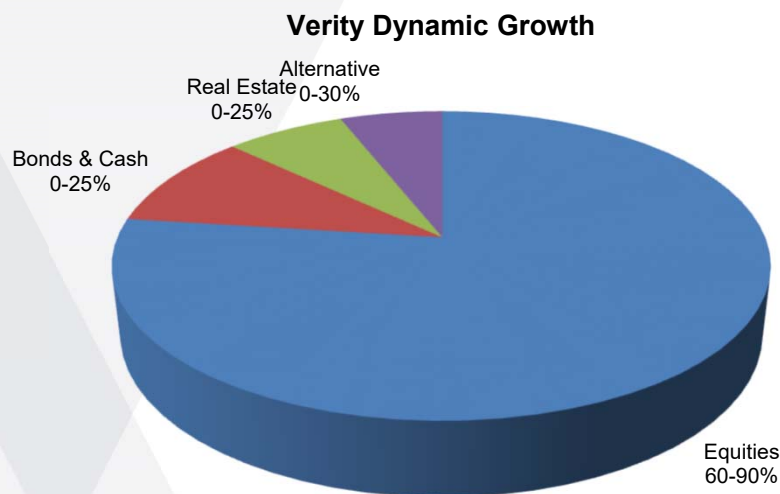
- The strategy is designed to remain well diversified among available asset classes. The percentage allocation to equities will vary according to the perceived level of market risk.
- During periods when our risk/reward assessment for bond funds is unfavorable, larger allocations to money market or fixed interest options may be used in place of bond funds to protect portfolio value.
- Some plans may not offer funds in the Real Estate or Alternative categories. For those plans, portfolio construction will focus on favorable weighting among U.S. and foreign equity, bonds, and fixed interest options.
- The percentage allocations illustrated are expected ranges. We seek to identify asset classes and sectors which currently provide favorable risk/reward profiles. We then build portfolios using those asset classes, seeking to optimize return with a material reduction in risk compared to the broad equity markets. There are no specific constraints on target allocations.

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## Verity Dynamic Growth Strategy

### Portfolio Description

The objective of the Verity Dynamic Growth strategy is strong growth of capital. It will seek to achieve a lower level of risk than the U.S. equity market, but the priority is growth. As a consequence, it will assume a greater degree of risk than more balanced or conservative strategies.



### Portfolio Characteristics

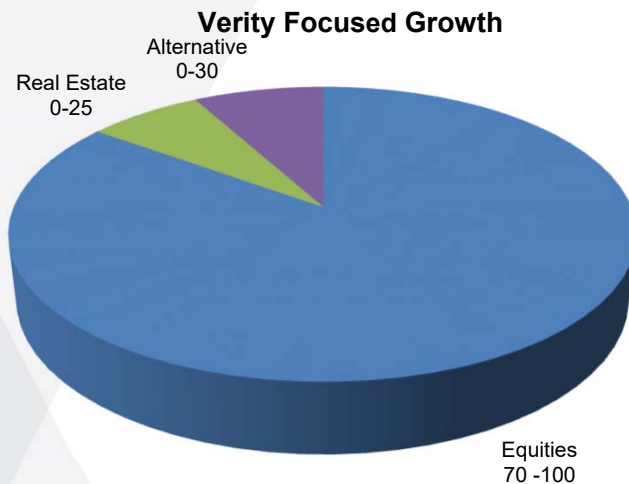
- The strategy will typically be invested primarily in equities. Real estate investment trusts (REITs) and alternative strategies investing in a variety of other securities may also be used when they appear to offer enhanced opportunities for growth.
- When market risk appears elevated, the strategy may hold limited amounts of cash for defensive purposes, with a goal of investing additional funds following significant market declines.
- Some plans may not offer funds in the Real Estate or Alternative categories. For those plans, portfolio construction will fully focus on favorable weighting among U.S. equity asset classes (large, mid, and small cap) and foreign equities.
- The percentage allocations illustrated are expected ranges. We seek to identify asset classes and sectors which currently provide favorable risk/reward profiles. We then build portfolios using those asset classes, seeking optimal return. There are no specific constraints on target allocations.

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## Verity Focused Growth Strategy

### Portfolio Description

The objective of the Verity Focused Growth strategy is very aggressive growth of capital. Allocations may be concentrated in positions judged to have greater upside potential. By removing constraints to growth, the strategy assumes risk of significant loss.



### Portfolio Characteristics

- The strategy will during most periods be close to fully invested. Allocations may consist exclusively of U.S. and foreign equities, typically with a heavy focus on U.S. equities. Real estate investment trusts (REITs) and alternative strategies using a variety of other types securities may also be used when they appear to offer enhanced opportunities for growth.
- Some plans may not offer funds in the Real Estate or Alternative categories. For those plans, portfolio construction will fully focus on favorable weighting among U.S. equity asset classes (large, mid, and small cap) and foreign equities.
- The percentage allocations illustrated are expected ranges. We seek to identify asset classes and sectors which currently provide favorable risk/reward profiles. We then build portfolios using those asset classes, seeking optimal return. There are no specific constraints on target allocations.

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## Investment Committee

**Members of the Investment Committee bring a considerable depth of experience.**



**Gordon Wegwart – Chief Investment Officer**

As Chief Investment Officer, developed the firm's proprietary tactical allocation and risk management strategies between 1998 and 2001 and has led the evolution and application of those strategies across multiple environments nationally, including higher education. Over 30 years of experience in strategic and tactical allocation across domestic, foreign, and emerging equity and debt; real estate; and commodities.



**Brian Kurtzer – Senior Portfolio Manager**

Joined Verity in late 2004 and became Portfolio Manager for the firm's tactical allocation strategies in early 2006. Began his financial services career as a commodities broker and trader. Was a principle owner of TriCom Commodities, Inc., and a member of the Coffee, Sugar, and Cocoa Exchange followed by the New York Board of Trade from 1983 to 2008.

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## Investment Committee (cont.)



### **Brad Corbett – Director of Fixed Income and Alternative Investing**

Joined Verity's investment team in June, 2014, after working as an independent consultant to the Chief Investment Officer of BlueCross BlueShield of North Carolina. Previously spent 11 years at Franklin Street Partners in Chapel Hill, NC, working at various times as Head of Global Investment Strategies and Portfolio Manager for the Opportunistic Fixed Income Fund. Was part of the team which managed Franklin Street's Multi-Strategy Hedge Fund portfolio for the State of North Carolina Retirement System. Career began as a fixed income securities trader at Barclays Capital in New York.



### **Steve Lewis – Portfolio Manager**

Joined Verity in 2006. Background includes nine years at Dreyfus Management, Inc., where he spearheaded the development of the Dreyfus Managed Portfolio, a discretionarily managed mutual fund service. After leaving Dreyfus, ran the Global Navigator hedge fund for two years before joining JPMorgan Chase as a Vice President of Investments. Currently is Portfolio Manager for two U.S. equity strategies.



### **Malcolm Trevillian – Portfolio Manager**

Joined Verity in 2008. Former positions include owner and investment strategist for Chatham Advisors; portfolio manager, analyst and board member of Franklin Street Partners in Chapel Hill; and a senior portfolio manager at First Union Bank in Charlotte, where he managed institutional pension portfolios and one of the Evergreen mutual funds. He is a Chartered Financial Analyst and Chartered Market Technician.

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*Registered Investment Adviser*

280 S. Mangum Street  
550 Diamond View II  
Durham, NC 27701

(800) 247.6717  
[www.verityinvest.com](http://www.verityinvest.com)

*There is no guarantee that tactical allocation will be successful, and there is a risk that more frequent moves and more narrowly targeted positions may be detrimental, resulting in worse performance than a strategic asset allocation approach. Although broad diversification is employed with the intent to realize opportunity while limiting volatility, there can be no assurance that purchasing securities of diverse types, narrow market sectors, and individual emerging market countries will not result in greater risk of loss should the assessment of market conditions prove incorrect.*

*Illustrated data was compiled using mpi Stylus Pro, Markov Processes International LLC.*

*This material contains forward looking statements. There is no guarantee these outcomes will be achieved or that the principles and strategies illustrated will prove as successful in the future as they may have in the past. All investing involves risk of loss, and portfolio values will fluctuate with changing market conditions. Before investing in any strategy, please review Verity's Form ADV Part 2 for more detailed information on investment strategies, risks, and fees.*

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